MICROENTERPRISE INNOVATION PROJECT—MICROSERVE

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PRELIMINARY ANALYSIS OF MICROFINANCE INSTITUTIONS IN BOLIVIA

Delivery Order No. 3
Task Order No. 4

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Submitted by:
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ABSTRACT

This report includes brief institutional analyses of nine microfinance institutions in Bolivia assessed in April 1997. These analyses were conducted to assist USAID/Bolivia determine the technical assistance needs of these institutions over the next 6 to 12 months so that it can better anticipate and make arrangements for appropriate services. The analyses include information about institutional performance standards and plans (institutional strengths and weaknesses, financial services and outreach, and financial performance); recommendations; observations; and discussion of areas in need of technical assistance. An annex includes notes from meetings held with individual institutions.

INTRODUCTION AND CONCLUSIONS

Introduction

Under Delivery Order #3, Chemonics sent a key MicroServe contract personnel member (James Hochschwender, MicroServe Technical Advisor) to Bolivia to familiarize himself with the Mission's microfinance program and to perform an initial assessment of program needs. Over April 15-23, 1997, the contractor's time was spent meeting extensively with the Microfinance Manager (Steve Smith) and Coordinator (Gabriela Santa Cruz) and other members of the Economic Opportunities Strategic Objective Team (Denise Fernandez - equity investments and internal controls issues; John Owens - microfinance specialist) to discuss the project's background and implementation strategy. Most of the consultant's time was spent visiting with key personnel from eight microfinance institutions and one second-story finance institution to be assisted under the MicroServe contract and developing a basic understanding of the legal, administrative, and financial operations of these institutions. The nine institutions visited are as follows:

- Agrocapital
- BancoSol
- ***Caja de Ahorro y Préstamo F.F.P. - Los Andes S.A.***
- ***Centro de Fomento de Iniciativas Económicas (FIE)***
- ***CRECER***
- Fundación para la Producción (FUNDA-PRO***)***
- ***PRODEM***
- ***PRO MUJER***
- ***Sartawi Foundation***

Technical assistance and training needs of these institutions were assessed and prioritized, and short and medium-term draft plans for assistance were developed with institution staff and agreed upon with USAID. We also met with the Superintendency of Banks to become familiar with its role in the licensing, regulation, and supervision of microfinance institutions and to discuss technical assistance it might access through the delivery order.

This report contains a separate preliminary analysis of the nine institutions visited. Each analysis covers:

- ***Institutional performance standards and plans:*** ***strengths and weaknesses in the institution's culture, organizational structure and staffing, strategic business plan, and management information systems.***

- ***Financial services and outreach:*** ***client focus and location of operations; number of clients, portfolio size, and growth potential; credit, savings, and other services.***

- ***Financial performance:*** ***pricing policies, portfolio quality, and operation and financial self-sufficiency.***

- ***Recommendations, comments, potential areas for technical assistance:*** *becoming an FFP, staff issues, operations issues, market analysis, capital savings, funding for expansion, guarantees, strategic planning.*

Following these analyses is a summary of the technical assistance for the next six months. It was agreed that six months was adequate for planning the next stages of technical assistance to be provided through MicroServe and the Mission. Technical assistance beyond six months will depend on the response to and results of the planned technical assistance.

Summary notes from the meetings with each institution are presented in Annex A.

Conclusions

Both the consultant and USAID staff concluded that significant progress is being made in most microfinance institutions in expanding services and outreach; establishing standardized operating and credit systems; and developing organization structure, staff, and policies to provide viable microfinance services to their target populations. The Superintendency of Banks is in the process of defining and developing the policies and systems it will need to adequately supervise licensed microfinance institutions. There is room for much improvement in all the organizations. Those improvements range from documenting operating and credit systems, developing standardized staff development programs, improving asset and liability management, hiring more qualified staff, and upgrading MIS systems.

MICROFINANCE INSTITUTION ANALYSES

AGROCAPITAL

Started in 1992, microcredit in 1993.

A. Institutional Performance Standards and Plans

A1. Institutional Strengths and Weaknesses

- **Institutional culture.** Started from agribusiness lending base and expanded into microcredit to respond to needs in rural areas it was serving. Had commercial orientation for operations from beginning. Objective to stimulate economic development in rural areas and the agriculture sector.

- **Organizational structure.** Central office in Cochabamba, regional offices in La Paz, Santa Cruz and Cochabamba, and total of 8 agency offices. Need to be more agile as competition increases, according to one evaluator.

- **Strategic business plan.** Aggressive expansion plan based on becoming an FFP and then expanding primarily (67 percent) on mobilized savings with specific strategies and operation plans being worked on at present. Application for FFP license already presented, but may need revision based on consultants' recommendations. Will introduce new products sequently.

- **MIS.** Bought complete, integrated Unix 5.0 MIS system from failed bank and are about 45-50 percent of way to adapting it to full use in their credit operations. Use modem transfer except where no phone lines. Want to install satellite link system to bypass phone line bottleneck. Are using internal MIS capability to complete system adaptation. Reports are not in form to be fully understood and used by staff and there are still data errors in the reports on delinquency. Do not have exchange of external bad debt information in system yet, but internal controls exist. Total cost of MIS system estimated at $300,000. But it should work for them for quite some time and expansion.

A2. Financial Services and Outreach

- **Client focus and locations of operations.** Agrocapital focuses on both micro producers and retailers as well as small and medium agribusinesses in rural areas. Of total loans outstanding 12 percent are micro loans, 58 percent are agricultural production, 11 percent are agribusiness, while 19 percent are commercial stores, shops and services. They have regional offices in La Paz, Santa Cruz, and Cochabamba, with a total of 8 local offices in and around those regional ones.

- **Number of clients, portfolio size, and growth potential.** Total loans outstanding $9.0 million of which $8.0 million are 793 mortgage loans and $1.0 million are 3,167 micro loans. Demand is outstripping financial resources, so potential for loan growth is strong in areas already serving. Ability/experience with larger agribusiness loans puts them ahead of other NGOs in the rural market.

- **Credit, savings, and other services**. Micro loans Bs. 1,500 - 16,000 up to one year with monthly payments, personal and guarantor with 2 day decision. Mortgage backed loans up to $300,000 for up to 6 years with variable payments according to cash flow with one week decision. When open as FFP, will offer savings, time deposit and wire transfer services. Are considering offering demand deposit services through affiliated commercial bank. Also considering debit card services.

A3. Financial Performance

- **Pricing and interest rates.** Micro loans - 42-48 percent annual; macro, mortgage backed loans - 17-24 percent annual.

- **Portfolio quality.** 98 percent current; 1.25 percent past due 1-89 days; 1 percent past due 90 days + Reserves of 2.04 percent.

- **Operational and financial self-sufficiency.** Operating Self-sufficiency - 129 percent Financial Self-Sufficiency - 107 percent (assuming 13.4 percent cost of funds for entire loan portfolio).

B. Recommendations, Comments, and Potential Areas for Technical Assistance

- **Agrocapital as an FFP.** They need to revise their projections according to more realistic growth in savings, as determined in the recent savings study. This will delay their application, but give them more time to complete the adaptation of their computer software and upgrade of operating systems and documentation they will need to obtain their FFP license for the SOB.

- **Personnel and staff development.** There is an urgent need to replace the General Manager, whose contract expires in August, with someone strong in bank or finance institution management. They tend to hire more financially qualified credit staff, but they need more systematic training for microcredit evaluators.

- **Market analysis, client focus, and locations.** They intend to continue present mix of clients in existing regions, opening new agencies as funding is available to expand loan portfolio.

- **Operations systems.** Agrocapital needs to further development of some operations and credit manuals to meet supervisory requirements of FFP.

- **MIS.** They need to further adapt computer software system to their own operations. They need to improve microcredit loan application forms to include cash flow analysis for 10-12 months rather than current single month.

- **Funding for expansion, ownership, and leverage.** Projections for initial capitalization are ambitious and will determine whether they can continue to lend up to current loan amount limits. Projections for high rates of savings mobilization, if met, will enable rapid loan portfolio expansion and income targets. However, cost of mobilizing and managing those deposits, including competition, could erode projected profits. If not met, the entire financial projections of the FFP will need to be revised down accordingly as they will not have the funds available to grow the loan portfolio as rapidly as projected. Will also have to take care not to be used to launder drug money from Chapare region.

BANCOSOL

Started as NGO PRODEM in 1986 and was licensed as a bank in 1992.

A. Institutional Performance Standards and Plans

A1. Institutional Strengths and Weaknesses

- **Institutional culture.** BancoSol has a strong institutional culture. They use a standardized urban solidarity group lending in a learning organization environment. They are strong on staff training and institutional development, reporting and feedback systems. They have grown out of an NGO into a market and results oriented financial institution that does well by doing good. Management emphasizes productivity and efficiency and is taking a longer term view at the organizational development of both services and the institution. They want to make staff be more entrepreneurial.

- **Organizational structure and staffing.** As of December 31, 1996 they had 473 employees.

- **Strategic business plan.** BancoSol's strategic goal is to be the premier bank/financial institution in Bolivia; profitable, solvent, liquid, with a healthy loan portfolio and adequately capitalized while serving the urban micro and small enterprise sector. Immediate focus is on continuing to reduce costs as a percentage of average portfolio outstanding from the current 16.3 percent to 13 percent while maintaining portfolio quality. This will be achieved by automating, to the extent it is cost effective, and reengineering procedures to streamline operations. They see need to get beyond rhetoric of “loving change” to actually embracing it. In that process they are becoming more practical and performance oriented. (For example, they reduced annual costs by $1.5 million by eliminating cover sheet on faxes.)

  Management is looking for the ideal mix of assets to maximize returns on assets and capital and preserve asset value.

- **Management information systems.** Unix based integrated system with open architecture that allows for Window use. They purchased the basic system from Banco del Pacífico and used Empresa Marcosa to adapt it to their services. with nightly modem or diskette transfer.

A2. Financial Services and Outreach

- **Client focus and locations of operation.** Micro and small enterprises in urban and secondary cities. They have 33 branches or sub-branches.

- **Number of clients, portfolio size, growth potential.** As of December 31, 1996 BancoSol had 71,745 clients, loans outstanding totaling US$47.448 million, and savings deposits totaling $11 million.

- **Credit, savings, and other services.** Mostly trade (70 percent) and production (29 percent) credit in primary and secondary cities. They also provide savings accounts and time deposit services.

A3. Financial Performance

- **Pricing policies.** N.A.

- **Portfolio quality.** As of December 31, 1996 delinquency was 2.63 percent of total portfolio. There appears to be a strong system in place to control arrears as they have come down steadily from 5.1 percent in 1994 and 3.1 percent in 1995. Evidently BancoSol will writeoff additional loans this year in order to make their portfolio more creditable and in the process will need to add $500,000 to their loan loss reserves.

- **Operational and financial self-sufficiency**

Portfolio Yield	34.7 percent
Imputed Financial Costs	13.4 percent on $U.S. funds
Operational Costs	16.3 percent

B. Recommendations, Comments, and Potential Areas for Technical Assistance

They will have to review the existing Accion International TA contract to see what areas are not covered therein and for which they might solicit assistance through Micro Serve.

B1. Staff Issues

BancoSol sees the need to continually improve their performance, both financially and operationally. They recognize that NGOs have staff who reject free enterprise. They do not feel client focus of business is at all contrary to social orientation of NGO staff. In fact, they see success as a result of client focus or market focus. They are weeding out non-performing, less well prepared personnel. They have some training materials and systems, but they need to reengineer the process from 16 steps to 10 steps in order to increase efficiency and productivity to set higher industry standards. They also need to complete job function manuals and get systems fully in use. They will start the reengineering next year. They will do this with field personnel. They have indicators of productivity by agency or profit center and pay up to 50 percent monthly pay in bonuses. They use targets and achievement thereof to determine bonus amounts. They need to develop an incentive system for upper management.

B2. Operations Issues

BancoSol is looking into ways to further automate their operations and lower costs. They have invested heavily in systems over last two years, but don't know how much operating costs should go down as a result of those systems investments. Their communications system should lower travel and paper costs. Their operating costs as a percentage of average assets at 16.3 percent fall somewhere between those of cooperatives (7.5 percent), consumer finance (13 percent), FFP's (13.4 percent) and Caja Los Andes (20 percent). They want to reach 13 percent. They need benchmarks for loan costs. Their operating costs are presently 27 percent of their portfolio.

B3. Capital

More work needs to be done to understand the financial service needs of those living in their market areas and how they might be provided at lower cost, particularly savings accounts, on which the President said cost them 30 percent and on which they, therefore, lose money. They do not want to mobilize savings just for the sake of doing it. It needs to be part of a conscious strategy of liability management. They also are learning of the dangers of foreign Certificates of Deposit; they sometimes are not renewed at maturity. Therefore they are looking into securitizing their loan portfolio and have held preliminary discussions with two rating agencies. They would like help on defraying the costs of getting rated (estimated at $40,000 for the due diligence required) and the legal fees (somewhere around $150,000) involved in securitizing at least $20 million of their loan portfolio. If they can achieve a rating of at least BBB, they have been told they could pay LIBOR +3 percent for their money, which would be below what they are paying for savings and foreign CD's (10-15 percent) and local currency CD's (55-60 percent).

CAJA DE AHORRO Y PRÉSTAMO F.F.P. - LOS ANDES S.A.

Started as NGO PRO-CREDITO in 1992 and was licensed as the first FFP in 1995.

A. Institutional Performance Standards and Plans

A1. Institutional Strengths and Weaknesses

- **Institutional culture.** Uses the technologies and systems of the German consulting group IPC. Therefore, are strong on discipline and procedures. They have provided credits to urban small and micro enterprises since January 1992, retail credits secured by gold jewelry since June 1993, credits to rural small and micro enterprises since February 1996 and savings and time deposits at two branches in La Paz and El Alto since May 1996. Their objective is to provide professional, safe, and reliable alternative services at lower cost.

- **Organizational structure and staffing.** As of December 31, 1996 the institution employed a total of 110 persons, 54 of whom serve as loan officers. The institution is organized into three departments; Finance, Operations and Credit. The Credit Department has a section for urban and rural credits which operates nine branches in La Paz, El Alto and Punata and a "pawn" credit section operating from one branch in La Paz that offers retail credits secured by items of gold jewelry.

- **Strategic business plan.** To serve the micro and small enterprise sector at prices which enable the institution to cover costs and earn a reasonable rate of return on equity, thus contributing to the process of institutional strengthening and development.

- **Management information systems.** Uses IPC MIS system with nightly modem or diskette transfer.

A2. Financial Services and Outreach

- **Client focus and locations of operation.** Micro and small enterprises in urban and rural areas. They have 3 branches in La Paz (71 percent of number of loans), 2 in El Alto, one each in Punata, Cochabamba, Sucre, and Tarija. They plan to open a branch in Beni, Trinidad in June. They have a "pawn" outlet in one branch in La Paz.

- **Number of clients, portfolio size, and growth potential.** As of December 31, 1996 Caja Los Andes had 21,492 loans outstanding totaling U.S. $11.7 million.

- **Credit, savings, and other services.** Mostly trade (56 percent) and production (29 percent) credit in urban areas, but since 1996 more rural credits. The breakdown by size of loan is 27 percent $200; 80 percent <$600; by maturities:

60 percent between 7 and 9 months, with a distinct trend toward longer maturities. They are just getting into agriculture and agribusiness credits in rural branches. They are also introducing housing upgrade loans with mortgage guarantees. They have started savings accounts and time deposits, but are focusing more on larger time deposits at market rates.

A3. Financial Performance

- **Pricing policies.** N.A.

- **Portfolio quality.** As of December 31, 1996 delinquency was 3.63 percent of total portfolio due with arrears for loans more than eight days past due at 0.81 percent, and 0.33 percent more than 30 days past due. There appears to be a strong system in place to control arrears.

- **Operational and financial self-sufficiency**

Portfolio Yield	24.85 percent
Imputed Financial Costs	12 percent on $U.S. funds
Operational Costs	20 percent
Operational Self-Sufficiency	163.3 percent
Financial Self-Sufficiency	110.6 percent

B. Recommendations, Comments, and Potential Areas for Technical Assistance

They would like a letter with the outline for an SOW and listing the types of technical assistance they can obtain through MicroServe.

B1. Staffing Issues

They have difficulty finding qualified staff willing to work in rural branches. They have the training materials and systems, but the problem is finding the right kind of people. They have always had the same kind of staff for loan officers and the training has always been the same. Now they are looking for staff with some new types of skills as they get into agriculture and other rural lending as well as small business loans.

They complement internal training with external training. They are sending some administrative staff to outside training.

B2. Market Analysis, Client Size, and Small Business Clients

More work needs to be done to understand the financial service needs of those living in rural areas.

Another challenge is to get small businesses to formalize. They see a need to facilitate this process with the Ministry of Labor and Tax Ministry as well.

C. Guarantees

Many borrowers do not have legal title to land, though they might have constructed a house on it. The construction is not legal. So Caja Los Andes has to look for alternative guarantees, such as of a parent. Chattel mortgages are not easily enforced because the legal process is not good. Each city has a different procedure for legalizing property liens. They see that the capacity to pay is the key factor in the decision to extend a loan.

D. Savings

They are approaching savings mobilization on a go-slow basis. They are doing next to no promotion of those services, and they strictly keep their interest rates at market rates. They would be interested in technical assistance on strategies and savings products. They do not want to mobilize savings just for the sake of doing it, It needs to be part of a conscious strategy of liability management.

E. Capital

They want to issue bonds on local and other stock markets. They expect they will need and obtain a guarantee from CAF for this.

CENTRO DE FOMENTO DE INICIATIVAS ECONÓMICAS (FIE)

Operations started in 1985; credit program started in 1988.

A. Institutional Performance Standards and Plans

A1. Institutional Strengths and Weaknesses

Overall sound foundation for expansion and becoming next FFP serving micro and small businesses.

- **Institutional culture.** Believe in systematic approach to credit and other services to people with limited resources and access to financial services in urban areas. Have developed own effective, integrated, automated MIS system. Have brought in people with formal bank experience in management and hired university graduates in business, accounting and economics as loan evaluators.

- **Organizational structure.** National office, regional branch offices in Cochabamba, El Alto, Oruru, Potosí, Santa Cruz, and Tarija, with agency offices around them in urban and periurban and semi-rural areas of concentrated population. They have a Credit Management and Operations Management with centralized legal and audit functions. Of the 100 staff, 44 are loan officers.

- **Strategic business plan.** Has a five year business plan for becoming an FFP and expanding individual loan services in areas of concentrated population at a continued annual rate of 40 percent. They realize there is much more to do to make operating plans that can be implemented. They will add savings and other financial services only after pilot testing and refining. Plan needs to integrate strategic organizational evolution in growth process.

- **Management information systems, accounting system, and documentation**

  - Loan manuals are currently being prepared, but have not been finalized and tested.

  - They developed their own integrated, modem-networked system with daily electronic transfer of data from all branch and sub-branch offices to central system. The MIS system needs to be updated in order to provide better and more secure information. FIE is proposing to buy a license to utilize their Clipper database system. This is only a temporary solution until they can afford a higher grade, more secure system such as Oracle. (See final report by Robert Boni.)

A2. Financial Services and Outreach

- **Client focus and locations of operation.** FIE tends to target primarily micro and small producers and artisans which make up more than 70 percent of the loan portfolio. The remainder (24.88 percent) are mostly retail businesses. They also lend to associations (2.15 percent) and do equipment leasing/lease purchasing (2.85 percent). FIE operates out of 12 branch offices located in seven regions - La Paz, El Alto, Cochabamba, Oruru, Potosi, Santa Cruz, and Tarija. Although 60 percent of outstanding portfolio is located in La Paz and El Alto, only 50 percent of the clients are from these two offices.

- **Number of clients, portfolio size, and growth potential.** As of March 31, 1997, FIE had made 67,081 loans totaling $44 million and have $8.3 million in loans outstanding with approximately 15,750 borrowers. Loans average $705 to producers, $4,604 to producer associations, $2,345 for leasing and $415 for traders and $668 overall. They are projecting in five years to reach $45 million in loans outstanding to 60,000 clients.

- **Credit, savings, and other services offered.** FIE offers both credit and training, but there are clear divisions between the services. Loans for the most part are provided on an individual basis. These loans range from $200 to $45,000 for up to five years for fixed investments, which have up to six months grace period. Working capital loans are for up to 18 months with up to 3 months grace period. Producer loans and leases take 7 days to process for new borrowers while new association loans take 15 days. New commerce borrowers take five days. It only takes one day loan processing for repeat borrowers who have paid on time. Average term of loans is 12 months for producer and association loans, 3 months for retail credit, and 24 months for leases. Payments are monthly for all but retail credits, which are weekly or biweekly. They require personal or group guarantees, and land titles, equipment titles, and/or general possessions guarantees.

  Three other non-financial services are offered: training, TA to businesses, and bulk purchasing. FIE sees non-financial services as important, but needs to find additional sources of support for this area of its operations. TA and training courses are offered to the sector, not just to FIE loan clients.

A3. Financial Performance

- **Pricing policies.** Nominal interest rates for producer, producer association and leasing loans up to $5,000 are 24 percent annual with a 2.5 percent up-front commission. Over $5,000 the interest rate is 22 percent annual with a 2.5 percent commission. For retail credits interest is 3 percent per month with an up-front commission of 2 percent. No commission is charged for lease financing. Average yield on portfolio is 31 percent due to the period between loans.

- **Portfolio quality.** As of March 31, 1997, the level of delinquency was 3.7 percent portfolio at risk, however, delinquency over 30 days was only 1.98 percent and there appears to be a strong corporate culture in place to control delinquency (as is reflected in the new staff incentive pay system). They are targeting average loans per evaluator of 372. Credit evaluators do cash flow analyses of all credit applicants.

- **Operational and financial self-sufficiency.** Field staff are fairly efficient with average clients per evaluator (loan officer) of 313. Their liabilities are 70 percent of loans with an average interest cost of loans of 9 percent. Capital is 20 percent of loans outstanding. Their profit margin was 1.5 percent of income in 1996.

According to figures provided by FIE for the period up to March 1997 showed:

· Portfolio yield	32.95 percent
· Financial costs	9.32 percent
· Operational costs	18.65 percent
· Operational self-sufficiency	107 percent
· Financial self-sufficiency	98 percent

B. Recommendations, Comments, and Potential Areas for Technical Assistance

B1. FIE as an FFP

To become an FFP will require many changes in the way FIE operates. The institution realizes that it needs a larger base from which to grow including a US$1 million deposit with the Bank of Bolivia. Leveraging funds from local banks in the form of loans has been difficult without guarantees. FIE does have a line of credit but this is limited. They wish to capture savings once they become an FFP but realize that this will take a lot of work and require a change in the way they operate.

B2. Operations Systems and Procedure Manuals

Loan procedure manuals are being developed, but additional manuals are needed to complete administrative and internal operating procedures as well as for proposed savings operations.

C. MIS

Their integrated MIS system software needs to be updated and later upgraded from current Clipper platform to have security required of a formal financial institution. Meanwhile, it provides adequate data for accounting and portfolio control and management.

D. Personnel and Staff Development and Training

FIE needs to prepare management and staff for shift of credit operations to the FFP. They need to train all staff who will move to FFP in revised operations and credit policy and procedure manuals. They will shortly pilot an incentive pay scheme for all staff who will be part of the FFP. Special skilled personnel will be needed as the institution transforms itself into an FFP. There is the need to increase personnel capacity and some personnel will need to be replaced. FIE has already selected the personnel who will be moving into the FFP, so as soon as the manuals and materials are ready, the training can and should begin.

E. Market Analysis, Client Focus, and Locations

Due to limits in available credit funds are constrained in their plans to expand existing and open additional branches and agency offices in current seven cities. But they are well positioned to open more in those cities and others as funds become available.

The institution realizes that it needs to offer more products and better analyze the needs of the sectors in which it operates. The entire savings market needs to be better understood. What is the competition offering? What are the associated costs of offering savings products? What changes in staffing structure will be required to offer savings?

F. Non-Financial Services

They need to answer the question, "What services will FIE-FFP be able to provide?"

- **Funding for Expansion - Ownership and Leverage.** Finding additional, cost effective sources of funding is key to continued rapid expansion of FIE-FFP. Plans for initial capitalization of FFP are conservative, but beyond that require much learning in order to be achieved. Cost effective savings services will take some time to develop once FIE becomes an FFP.

CRECER

Started in 1985.

A. Institutional Performance Standards and Plans

A1. Institutional Strengths and Weaknesses

- **Institutional culture.** CRECER uses the village banking, credit-with-education system of Freedom From Hunger (FFH) for women (98 percent) without access to education or financial resources. They are currently very donor and TA dependent. Current problems of recent fraud of three field staff, low paid field staff (5) deserting to other better paying MF institutions, and the arrival of a long-term expatriate advisor highlight the crossroads the institution has reached. Management is inexperienced but very willing to learn and trying to gain control of the situation. FFH has sent a LT advisor to help out. CRECER mixes health, education, basic business training and microcredit; with the objective of eliminating chronic hunger.

- **Organizational Structure.** Two regional offices (La Paz and Cochabamba) are supervised from the head office in La Paz. A resident advisor has been assigned from FFH for next 2 ½ years. There is a national Education Coordinator who is responsible for all staff training with help from an inexperienced regional education coordinator. One Regional Coordinator is responsible for 120-150 associations or VB's. Promoters (4-8) work out of a ULO (Local Unit Organization) with an average of 15 VB's composed of 5-6 solidarity groups of 3-5 persons. Groups use consensus on credit decision, and Association (VB) reviews group list for bad debtors. VB is lead by a Director's Table composed of 5 members. VB's have own set of rules for use of internal account (obligatory and voluntary savings) based on a policy framework provided by CRECER. They do not require people to have an identity card but are considering doing so to avoid “bicicleteo” of clients borrowing from various MFI's to pay off other loans.

- **Strategic business plan.** They need to develop a better strategic business plan. Basically they are in a consolidation phase and are trying to focus on establishing a stable, functioning and secure organization rather than expanding in the near term. Shift is toward being more self-sufficient. They need to bridge between rhetoric of FFH grant proposals and field operations. They need to establish a performance-based remuneration system in the more and more competitive staff market place. They want to become more efficient and establish better internal controls. They are taking 1-4 weeks between loan cycles and losing clients in the process.

- **Management information systems.** They are in the process of decentralizing their very centralized accounting system, portfolio tracking and database systems. They lack ability to issue checks from regional offices. System is slow in showing exactly when a payment is made since it takes a awhile for records to get to central office. They need an expert to design and improve controls, and to analyze whether they should upgrade existing system or buy and adapt a new system. Recently had three cases of fraud, and so, need better internal controls. Are sending perpetrators to jail to set example.

A2. Financial Services and Outreach

- **Client focus and locations of operations.** Focus is on women (98 percent), micro producers, artisans and retailers in rural areas.

- **Number of clients, portfolio size, and growth potential.** As of March 31, 1997, they had 6,660 clients with a total of $800,000 outstanding in loans in 13 locales. They will reduce to 12 ULOs in May and later to 10 - 7 in La Paz and 3 in Cochabamba. Recently they lost $30,000 to fraud, and so are in a consolidation phase at present. Until they have established better controls, they will have to be wary of expansion.

- **Credit, savings, and other services.** Group guaranteed loans of Bs. 300 - 2,000 per individual graduated in 16 week cycles with 10 percent obligatory savings. They charge 3 ½ percent per month flat, but payments are not made to CRECER until end of loan cycle. They are testing 26 week cycle for agriculture loans in Cochabamba. There is one or more weeks between loan cycles. They need to improve service. Weekly meetings are held for at least the first two loan cycles. Each meeting includes a training segment alternately in organization and administration of the VB, health and nutrition, and development of microenterprises. They have five meetings of 2 hours prior to establishment of VB. The ME training covers such topics as general administration, calculating costs and profits, and buying at lower cost. Internal account (from obligatory and voluntary savings) is used to lend for shorter term loans. No loans are made from this account during last 3-4 weeks of CRECER loan cycle. They charge 3 ½ -5 percent per month flat plus penalties for late payments. They use Paolo Freire education techniques of role playing and consciousness raising.

A3. Financial Performance

- **Pricing policies.** 3 ½ percent monthly flat interest, but only paid to CRECER at end of loan cycle. Internal account loans charge interest of 3 ½ - 5 percent monthly flat plus late penalty fees (varies from group to group).

- **Portfolio quality.** Is presently in question. Policy is that the day after a payment is late, the entire loan to the association is delinquent. Fraud was found in three groups totaling Bs.150,000 recently and one VB closed. Need better internal controls and to establish percentage to keep in reserve for bad loans. They use peer pressure to ensure repayment as “a person who is refused group credit is marked for life.”

- **Operational and financial self-sufficiency.** N.A.

B. Recommendations, Comments, and Potential Areas for Technical Assistance

Overall, CRECER is at a critical juncture in its organizational development. They have developed parts of a systematic approach to serving poor people in rural areas of Bolivia. They need to define a coherent strategy for putting the rest of the organizational and methodological pieces of their credit with education approach into place so they can optimize use of their resources and achieve their targeted growth in a stable fashion.

- **Personnel and staff development.** They have a Promoters Manual for training new promoters, but that is the only materials they have for staff training. They need to add the internal account to it. They have written but not yet implemented a personnel manual with performance-based incentive pay system. Management feels need to motivate with productivity. (Otherwise, they can expect to continue to lose field staff to other, better paying MFI's.) there is potential for the Executive Director to be by-passed by staff if the expatriate advisor allows them to go around her to him and does not insist that all communications to him go through her.

- **Market, client focus, and locations.** Presently consolidating from 13 to 10 locales in La Paz (7) and Cochabamba (3). Appear to be reaching a segment of rural market that few other NGOs are.

- **Operations systems.** They have an operations manual for promoters. However, recent fraud in 3-4 village banks points out need for improved systems.

- **Management information system.** They have requested an MIS expert to evaluate their system and recommend whether they should revise the existing one or buy a new one and adapt it to their needs. They will need to integrate accounting and portfolio tracking systems.

- **Funding for expansion, ownership, and leverage.** They have and are soliciting funding from many different sources to increase their credit funds. They have loans from Plan International, COSUDE and PMP at low cost for short terms (up to three years). They also have a loan from BISA at 23 percent interest, which is too high for them to have any chance of recovering their costs at their current rate of interest. They are seeking additional funding from FUNDA-PRO, NAFIBO and UNDP-Microstart. They need help with their asset and liability management, which should be started as part of a strategic planning process (see “strategic planning” below).

- **Strategic planning.** They appear to need a strategic planning process that will enable them to incorporate enough organizational development into their operating plans for them to not have to shrink overall operations while they are consolidating offices. Otherwise they will be moving backwards on operating and financial self-sufficiency and declining staff morale could crash the program. It is recommended that this process begin as soon as possible.

FUNDACIÓN PARA LA PRODUCCIÓN (FUNDA-PRO)

A. Institutional Performance Standards and Plans

Started operations in 1992 with support from the government of Bolivia, USAID/Bolivia and the Corporación Andean Finance Corporation (CAF). Management of FONDO-PRO, a second-story credit line that supports the opening and expansion of credit channels to sectors without access to it, was ceded to FUNDA-PRO in 1992. FUNDA-PRO started working with the medium sized enterprise sector, but over the last three years has worked more and more with micro and small enterprise credit. FUNDA-PRO has several credit programs under its Financing Program including two lines of credit for second-story financing for intermediary credit institutions - banks, NGOs, cooperatives and FFPs. They also have an education credit line for student loans. Their Development Program provides training, institutional development, fora for exchanging ideas and practices, and new market development assistance.

A1. Institutional Strengths and Weaknesses

FUNDA-PRO is well funded ($25 million) overall. It has a sound foundation for expansion and serving production and service micro, small and medium businesses, exports, rural credit and non-bank financial institutions liquidity through second-story lending operations.

- **Institutional culture.** Believe in systematic approach to credit and other support services to institutions trying to help people with limited resources and access to financial services. They provide loans and institutional development assistance and want to be the premier institution doing so in Bolivia. They have persons with formal bank and donor experience in management.

- **Organizational structure.** National office in La Paz is divided into Credit and Development divisions with centralized legal and audit functions with 16 staff.

- **Strategic business plan.** They currently rely on donor funding for capitalizing their loan windows, but have a business plan for establishing a finance company, CORPRO which would also use private money. They want to become the premier training institution for microfinance in Bolivia and in the Latin America region. All loans funds should be financially self-sufficient. They want to establish the Production Finance Corporation to lend directly and indirectly to small medium and micro businesses With the new decree from Central Bank applying to second-story banks, they will have to redo feasibility study for CORPRO.

- **Management information systems/accounting system/documentation.** We did not look at their systems. They manage about $17 million portfolio for which they need to receive and analyze data from the 11 institutions they have lent to and the student loan portfolio. Miguel Hoyos said they are only experiencing slow or no payments on the two banks which are in reorganization or which have closed. (See A3, Portfolio Quality below.)

A2. Financial Services and Outreach

- **Client focus and locations of operation.** Second-story operations focus on 11 banks, coops, NGOs, and FFPs. They also manage a student loan fund (EDU-PRO). As a second-story bank they work out of a single office in La Paz, but there funds are on lent in 29 localities across Bolivia.

- **Number of clients, portfolio size, and growth potential.** As of December 31, 1995, they had a portfolio of $US11.4 million to 8 intermediate credit institutions including LAAD, PRODEM, PRO-CREDITO, FIE, Banco Sol, Sartawi and two commercial banks. Their funds were onlent to over 22,000 micro (74 percent), small (18 percent) and medium (8 percent) enterprises, 20 percent rural and 80 percent urban.They have additional funds for onlending.

- **Credit, savings, and other services.** FUNDA-PRO offers credits for onlending for an average of 3 ½ years. Their second-story loans range from $80,000 to $2.8 million.

Other non-financial services are being offerred: training for staff of non-bank financial institutions, market studies for opening new markets, fora for interchange of experience, ideas and strategies. Additional consulting services are in the process of being developed: institutional development; mobilization of savings and capital strengthening.

A3. Financial Performance

- **Pricing policies.** N.A.

- **Portfolio quality.** Specific figures were not provided but it was reported that the two commercial banks that had been financed were the only delinquent loans. This represents a significant portion of their portfolio ($3.4 million outstanding as of 3/31/95 but reportedly much less at present).

- **Operational and financial self-sufficiency.** According to partial financial reports from December 31, 1995, there was an excess of income over expenses of $1.8 million, which means that they are operationally self-sufficient. Since no details were provided, it was not possible to anlyze the data any further. As of December 31, 1995, FUNDA-PRO had $6.4 million in capital and a capital to portfolio ratio of 39 percent.

B. Recommendations, Comments, and Potential Areas for Technical Assistance

- **CORPRO.** For this financial entity to receive its license FUNDA-PRO will have to redo the feasibility study for it, to conform with upcoming Central Bank decree concerning second-story banks. They will use a local consultant, Jorge McLean for this. They will also have to find investors to come up with the minimum capital required. They see outside investors as key to their application. SEED Capital is to help with finding investors, possibly both bond and equity.

- **Loan portfolio.** The status of their portfolio should be investigated further to determine whether they need to institutemore stingent loan decision making.

B1. Training on Non-bank Financial Entities

In cooperation with FINRURAL and CIPAME (associations of rural and urban NGOs involved in microfinance), FUNDA-PRO is planning to develop a “certified microfinance specialist” course that will take advantage of the vast microfinance experience in Bolivia while bringing in outside experts to provide it international legitimacy. They are reviewing four prosals from training institutions to determine with whom to work. They want to be able to give a certificate acceptable to a university in Bolivia. It should be a one year program delivered in pieces; parttime on weekends mostly, but possibly with more intensive portions when high level external consultants come. They would like USAID to cover the cost of the ex-patriate instructors and advisor. They have identified several local instructors. Given the rapid expansion of microfinance services in Bolivia, it would appear that the development of such a training is appropriate. Given the expansion of microfinance in other Latin American countries, and the absence of Spanish speaking courses like the one at Boulder, Colorado each summer, it also seems worthwhile to see if a course that would attract students from other countries could be developed to be self-sustaining from fees charged. The objective of the course is a person who can better set up and manage a non-bank microfinance institution. According to Miguel Hoyos, COSUDE is willing to provide some economic support the development and implementation of this course. Miguel has also spoken to Claudio Gonazales Vega about Ohio State University lending its name to this program, to provide it international prestige to attract paying foreign students.

B2. Market Analysis

In order to better determine the demand for microfinance services in Bolivia, several institutions have asked FUNDA-PRO to do a sector study of the microenterprise sector.

PRODEM

Institution started 1985; current rural credit program started 1993.

A. Institutional Performance Standards and Plans

A1. Institutional Strengths and Weaknesses

- **Institutional culture.** Strong emphasis on systematic development of effective micro and small credit systems and coupled with an aggressive expansion strategy. PRODEM is a "learning organization." After transferring its urban loan portfolio to BancoSol in 1992, PRODEM began to focus on secondary cities and rural areas with active markets of more than 5,000 people. They are sticking to their proven solidarity group methodologies without limiting themselves to just those products. They have a strong focus on becoming financially self-sufficient.

- **Organizational structure and staffing.** PRODEM has 34 branches in seven regions across Bolivia in urban and secondary cities and towns. Headquarters is in La Paz with the Finance Manager, Operations Manager and central accounting, administration, finance, credit, human resources and information systems.

  PRODEM sees regular training of its staff as being very important. PRODEM states that all its operations and procedures are well documented. PRODEM has a good incentive based salary structure that focusses on the number of clients managed, delinquency, and profitability. Incentives are team based. There are also regular personnel evaluations performed twice a year which focus on functional areas, productivity and the person's contribution to a positive work environment.

- **Strategic business plan.** PRODEM has an aggressive plan for expansion as fast as financial resources will permit to capture market across entire country in secondary cities and towns. They plan to become an FFP by June 1998 with investment support from private and public sources. PRODEM uses a cost center approach as it expands.

- **Management information systems.** They use an in-house developed, partially integrated accounting and portfolio management and database on FOXPRO platform. They are looking at converting to SQL. They have decentralized accounting into regional offices. Agency offices are no longer electronically linked, they make weekly electronic transfers of data with daily radio transfer of cross-agency transactions. Credit advisors in agencies have to input basic client data more than once, so there is room for improved efficiency in data input. They have limited external bad debt information in their MIS system.

A2. Financial Services and Outreach

- **Client focus and locations of operations.** PRODEM's focus is primarily on microenterprises that operate retail businesses however they also provide credit to microproducers, fisherman, agriculture, animal rearing, and other businesses that operate and are important in rural areas. 58 percent of the clients are women. Clients must live in the area for at least 1 year and have operated a business/farm for at least 1 year.

PRODEM operates out of 33 branches that are located in secondary towns of rural parts of Bolivia, 9 agencies in the department of La Paz, 7 agencies in the department of Cochabamba, 7 agencies in the department of Santa Cruz, 4 agencies in the department of Potosí, 2 urban offices in the department of Chuquisaca, 3 agencies in the department of Tarija, and 1 in Trinidad. PRODEM's expansion plans include the opening of 17 more offices by 1998.

- **Number of clients, portfolio size, and growth potential.** As of February 28, 1997, PRODEM had 27,423 clients (58 percent women) with average loan disbursed of $418 and a total active loan portfolio of $7,826,516. Historical average loan size disbursed is $317. The increase in February is due to changes in loan policies designed to improve portfolio efficient and staff productivity.

- **Credit, savings, and other services.** PRODEM provides solidarity group loans with groups of 4-6 microentrepreneurs for commerce and production, including agriculture. First loans are limited to $80/client and are limited to 2 month terms. Loans are repaid biweekly or monthly, depending on the solidarity group. Average loan term 5.6 months. PRODEM is currently trying to extend length of loans, and thereby increase the average loan amount, in order to increase efficiency. As PRODEM works increasingly in rural areas new products have been designed that have more flexible loan terms including longer repayment periods and balloon payments for agricultural loans. However the director mentioned that there are still many difficulties with small farmer credit. Agriculture loans of $500-$2,000 are made for up to 10 months, in Bolivianos only. They are experimenting with two truck loans for $25,000 and $45,000, with full replacement insurance included, and at 36-38 percent interest. PRODEM is also looking at the possibility of lease financing, savings products, and money transfers in the future, when they become an FFP.

A3. Financial Performance

- **Pricing policies.** 4 percent per month interest.

- **Portfolio quality.** As of February 1997, PRODEM had a delinquency rate of 3.57 percent, however delinquency over 30 days was 1.12 percent and there appears to be a strong system in place to control arrears.

- **Operational and financial self-sufficiency.** According to figures provided by PRODEM for the period up to February 1997 showed:

Portfolio yield	51.31 percent
Imputed financial costs	13.40 percent
Operational costs	36.06 percent
Operational self-sufficiency	140.2 percent*
Financial self-sufficiency	97 percent

* For organization as a whole.

B. Recommendations, Comments, and Potential Areas for Technical Assistance

B1. PRODEM's Application as an FFP

- PRODEM now clearly intends to become an FFP. The executive director is looking for support in drafting documents such as shareholder agreements and an appropriate prospectus.

- Provisions under the FFP act may cause some difficulties for those that offer solidarity loans due to lending limits.

B2. Rural Offices

According to the executive director of PRODEM, rural offices take up to 2 years to cover costs compared to 6 months for urban offices. They need to and are looking at ways to become more efficient by extending loan terms and thereby increasing average loans outstanding.

B3. Staffing Issues

As PRODEM moves toward becoming an FFP, there are many challenges for the staff. New staff with a higher skill level will be required for PRODEM to become an FFP.

B4. New Products

PRODEM is looking at offering new products in the areas of lease financing, savings, and money transfers.

B5. Market Analysis

More work needs to be done to understand the financial service needs of those living in rural areas.

B6. Internal Controls

PRODEM admits that it needs to strengthen internal controls and hire an internal auditor who would report to the president of the organization.

B7. Funding for Expansion, Ownership, and Leverage

PRODEM has expressed interest in assistance in developing a prospectus and soliciting investors.

A. Institutional Performance Standards and Plans

A1. Institutional Strengths and Weaknesses

PRO MUJER started training operations in 1990 and started village banking in 1994. They have developed a systematic, documented methodology with controls that generally meet current needs, but they will need to upgrade to attain target of 1000 village banks (VBs) in a stable manner.

- **Institutional culture.** PRO MUJER is a women oriented program of village banking. Management seeks to maintain tight control of operations and grow incrementally. Top management fears incorporating stronger finance staff, but staff and management are willing to learn.

- **Organizational structure.** Four regional offices supervise focal centers where village bank associations come to meet weekly or biweekly. Headquarters has training, MIS, planning and oversight functions. Board is in the United States.

- **Strategic business plan.** Their strategy is controlled growth to maintain quality of portfolio and service to village banks. Projections are to double portfolio size in each of next two years after a period of consolidation and organizational and systems development. Their plan needs more detail on how they will create and manage that growth. PRO MUJER plans to become an FFP, but they will need people with more finance background to be accepted by SOB.

- **Management information systems.** They have fund accounting and portfolio tracking system that are adequate but separate and need to be linked for more automation. Accounting is decentralized in regional offices. FOXPRO based system was purchased from IDEPRO. They have data for controlling internal account of VBs, but are not fully utilizing it to control delinquency in groups.

A1. Financial Services and Outreach

- **Client focus and locations of operations.** PRO MUJER focuses on women (95 percent), without access to financial services, who are uncertain of how to increase their income and often afraid to take credit. They have regional offices in El Alto, Cochabamba, Sucre, and Tarija with 5-20 focal centers around those regional offices. They are trying to consolidate focal centers in order to improve efficiencies, and have reduced the number from more than 20 to five in the El Alto region without loss of village bank associations.

- **Number of clients, portfolio size, and growth potential.** As of December 31, 1996, PRO MUJER had 9246 loans outstanding to clients in 360 VB's; 80% women with a total portfolio of $1.059 million, up from $377,035 a year earlier.

- **Credit, savings, and other services.** PRO MUJER makes solidarity loans to groups of 4-6 in associations of 15-50 clients. They use graduated 16 week loans for improving income beginning with loans of $50-100 with a maximum 30 percent increase between cycles up to maximum of $600 in 2nd year. Payments are weekly or biweekly. They have obligatory and voluntary savings. Loans from the internal account (generated from savings) are lent at interest rates higher than PRO MUJER's and dividends are paid from net earnings.

  PRO MUJER also provides consumption wholesale purchasing (basic food staples) to reduce costs to low-income women and their families. Training is provided in solidarity groups on health and basic business as part of VB formation. PRO MUJER is thinking of other services such as individual loans and other options for larger clients.

A2. Financial Performance

- **Pricing policies.** 4 percent per month declining balance with no other fees. Internal account loans are at rates higher than PRO MUJER loans.

- **Portfolio quality.** PRO MUJER has less than 1 percent delinquent portfolio at risk of PRO MUJER loans because of obligatory savings guarantee fund in VB. Internal accounts of different VB's have delinquencies ranging from <1 percent to as high as 40 percent. They urgently need to better use of internal accounts reports for closer control of that delinquency, or it will eventually become a problem for the PRO MUJER loans as well.

- **Operational and financial self-sufficiency.** PRO MUJER has had a dramatic increase from 5.14 percent operational self-sufficiency in 1994 to 92.7 percent operational self-sufficiency in 1st quarter of 1997 with approximately 50 percent financial self-sufficiency in same period. They can increase financial self-sufficiency by better utilization of credit fund resources - reducing period of time between loan cycles and fully lending funds available (currently using 64 percent of available funds).

B. Recommendations, Comments, and Potential Areas for Technical Assistance

- Personnel and staff development. They have documented training materials and system for credit activities, but are limited in level of sophistication of financial analysis at all levels of organization. They need to hire a Finance Manager to upgrade financial analysis, asset and liability management. They are in the process of instituting a performance-based pay incentive program to retain better staff. They will also need inputs for any new services to be added. Probably both principles will go to MFI training in Colorado this summer. Board in U.S. needs to have closer relations and have its support better defined and implemented.

- **Market analysis.** They have a strategy for expanding areas of service around four regional offices as resources permit. There appears to be significant unmet demand for VB services. They would consider establishing new regional offices as resources (human and financial) permit.

- **Operations systems.** They have a workable, documented system at present with need for minor adjustments for operation at current size.

- **Management information systems.** Accounting and portfolio management systems (software) need to be upgraded to provide better data security, be more automated and efficient. They appear to have reasonable internal MIS capability, but need more experienced Finance Manager to upgrade asset and liability management within the system.

- **Funding for expansion, ownership, and leverage.** Have limited funding lined up for major expansion beyond the next year. With IGP grant, will have sufficient credit resources through 1998. Additional credit fund resources are in preliminary stages of development. Higher level of financial self-sufficiency, better VB internal account supervision and transparency will open the number of options for funding.

SARTAWI FOUNDATION

Sartawi started in 1990.

A. Institutional Performance Standards and Plans

A1. Institutional Strengths and Weaknesses

- **Institutional culture.** The Foundation is in preliminary stages of methodological institutional development. They make individual loans in rural communities primarily to men (70 percent). They have non-standard methodology being applied in different locales by choice and due to lack of standardized and documented operations and credit procedures. They are, according to the Executive Director (ED), trying to be a financial institution with social values. They offer other services (training, etc.) but those are completely separate from credit. They obtain training from outside of organizations when they don't have internal expertise, but the ED of Foundation is wary of outside consultants.

- **Organizational structure and staffing.** Sartawi has centralized accounting and MIS but decentralized credit process. They operate through 3 regional offices (La Paz, Cochabamba, and Oruru) with a Manager, Loan Officer and Cashier with 2-4 local offices (agencias) in each region each with an Agency Head and a local Credit Officer. They have a General Manager, Finance and Administrative Manager, Chief Credit Officer and support staff in El Alto headquarters. Offices operate fairly independently. Credit officials are mostly men with some business or agricultural background.

- **Strategic business plan.** As credit funds are available, they go into communities in their regions which have basic services such as transport, telephone, water and electricity. Lend, mostly to men, in production, service or commercial enterprises. They tailor service and loan products to local customs and needs. They look for persons/businesses with “the best potential for growth.” They are looking to become an FFP, but will need substantial organizational upgrading before they will be able to get a license.

- **Management information systems.** According to them it is weak - not automated. Field staff use 2 of 5 workdays per week on completing administration and accounting. They lack fund accounting software. They need a system which will enable them to track personnel performance.

A1. Financial Services and Outreach

- **Client focus and locations of operations.** Clients are mostly men (70 percent), in part at least, because credit officers are mostly male. They say activity focus is dictated by local conditions. They target those “with best potential for growth.” Credit officers need training in credit evaluation to be able to assist their clients with their investment analysis.

- **Number of clients, portfolio size, growth potential.** As of December 31, 1996, Sartawi had 4135 individual loans outstanding, totaling $1.6 million in 16 communities in 3 regions. Average first loan is $340. Breakdown of loans by activity is: Production 40 percent, Commerce 30 percent, Service 20 percent.

- **Credit, savings, and other services.** They make individual $U.S. and Boliviano loans ranging from $200 - $10, 000 for production, service and commerce, but they focus more on agricultural production credit. Minimum $200 maximum $500 first loan. Land title guarantees are required or a power of attorney and land guarantee from a parent. None of the guarantees are legally enforceable. Terms range from 4 months up to 24 months for larger production loans. They use family, neighbor and community peer pressure for repayment. Loans are approved for up to 30 percent of combined net cash flow of the nuclear family. They have fixed monthly payments for loans up to $400 and variable or fixed payments on loans greater than $400. Lending officers check with neighbors for other credits clients might have.

A2. Financial Performance

- **Pricing and interest rates.** 2.75 percent per month flat interest on loans up to $1,000, 2.5 percent loans >$1,000. Processing fees: $6 new client, $2 repeat client. Penalty interest: 1.25 percent per month on $ loans, 1.5 percent on Bol. loans.

- **Portfolio quality.** Varies significantly from office to office.

- **Operational and financial self-sufficiency.** N.A.

B. Recommendations, Comments, and Potential Areas for Technical Assistance

With the exception of the General Manager, Jorge Tipisman, the staff and upper management did not seem as open to outside assistance as other NGOs we visited. They clearly are in the midst of a consolidation phase. They need to learn to better administer risky credit and need to mature organizationally. They have little chance of becoming an FFP any time in the near future.

- **Personnel and staff development.** They need to systematize, upgrade and document staff selection and training procedures. Improving MIS system to track personnel performance is a necessary part of this upgrade. They are presently using local credit officers with business/agribusiness experience. They need a system for qualifying and specializing personnel as financial analysts of micro, small and medium credits. Their on-the-job training under agency head is not consistent. Field staff and credit management staff need more technical training in evaluating credits, portfolio management, and client investment analysis.

- **Market.** Their focus is in rural communities with existing basic services in La Paz, Cochabamba, and Oruru regions. They will lend to clients with viable business ideas for the area in production, services and commerce. They see production activities as more appropriate for achieving Sartawi objectives.

- **Operations systems.** With the exception of the general manager, staff do not see the need for standardized, documented system development. They need fund accounting software and more automated portfolio tracking system. They will need to integrate accounting and portfolio tracking systems in order to better manage assets. The general manager recognizes the need for bringing in financial analysts that can help them.

- **Funding for expansion, ownership, and leverage.** They are seeking to access donor, Programa para Asistencia a la Microempresa (PAM) and other sources of external funding. They are looking into becoming FFP in order to have greater access to loan funds and other sources of funds. However, their systems will need substantial development before becoming an FFP will be at all possible.

ANNEX A
SUMMARY OF CONSULTANT MEETINGS: APRIL 14 - 25, 1997

Monday April 14, 1997

9:30 AM JEH met with USAID Security Officer, Enrique Cassal and was briefed on security and health issues pertinent to the consultant's assignment in Bolivia.

12:00 Noon Steve Smith, John Owens, Gabriela Santa Cruz, Denise Fernandez of USAID - JEH had working lunch with all of the USAID people he would be working with during this TDY. The objectives of the assignment were discussed and all agreed that JEH and John Owens would get to know the key institutions in microfinance in Bolivia and the key players therein, with particular focus on those institutions to which USAID might provide technical assistance and/or training under the MicroServe delivery order. The purpose of these introductions would be to give Hochschwender and Owens sufficient familiarity and information about the institutions, their level of organizational development and overall character, to be able to better identify appropriate consultants for assignments with them. A second objective of the meetings would be to identify, together with the institutions, areas in which they are in need of technical assistance and/or training over the next eighteen months. It was agreed that Hochschwender would draft an outline of those TA and training needs together with his observations of what was needed and in what sequence. These ideas would then be discussed with Steve Smith, John Owens, Gabriela Santa Cruz, and Denise Fernandez, and plan of action for the technical assistance and training would be drawn up based on those discussions. Gabriela Santa Cruz presented everyone with a new, more detailed version of the meeting schedule which was reviewed. Hochschwender presented copies of a list of questions for the institutional interviews and a brief focus summary for identifying what is next for each institution to be visited. (See Annex B.) These were reviewed and it was agreed they would be useful. Steve Smith explained that Hochschwender would have to go to some of the meetings alone the mornings of the first week. That was discussed and it was agreed that there would be at least one person accompanying Hochschwender on all visits, but that it would have to be split between Gabriela Santa Cruz and John Owens, since they both had to attend a training course in the new management system at USAID. Hochschwender requested documentation on BancoSol, PRODEM and CRECER before meeting with them, so he could be somewhat prepared, which Gabriela agreed to do.

Denise Fernandez mentioned that she, Arelis Gomez and Hochschwender would need to review Arelis' and Hochschwender's scopes of work and come to an agreement that would eliminate any duplication of effort in their work with Pro Mujer. They agreed to set up a time with Arelis to do this sometime the first week, since Arelis was scheduled to be out of La Paz all the second week when Hochschwender is scheduled to work at Pro Mujer.

2:30 PM Centro de Fomento de las Iniciativas Económicas (FIE)

Enrique Soruco, Gerente General, Elizabeth Nava, Director de Créditos, and Jaime Mercado Mendez , Gerente de Administraciones y Finanzas; USAID - Steve Smith, John Owens, Gabriel Santa Cruz, Denise Fernandez; MicroServe/Chemonics International - James Hochschwender.

Everyone was introduced and Mr. Soruco began with a brief summary of the history of FIE's credit program. It began in 1985, and was expanded in 1989 with a $500,000 in loan funds from IDB. They have made total loans of $60 million and currently have $8.3 million in loans outstanding with approximately 16,000 borrowers. They feel they are fairly efficient with average clients per evaluator (loan officer) of 313. Their default rate was 3.7 percent as of March 31, 1997. They are targeting average loans per evaluator of 400 and loan default rate of 2.6 percent by December 1998. Their effective interest rate is 33 percent, and their average yield on portfolio is 31 percent. Their liabilities are 70 percent of loans with an average interest cost of loans of 15 percent. Capital is 20 percent of loans outstanding. Their profit margin was 1.5 percent of income in 1996. They are projecting in five years to reach $60 million in loans outstanding to 60,000 clients.

Currently they have manuals for credit, operations, and accounting, including flow diagrams. They have a manual for their MIS system, but they do not have a flow diagram for their computer system. They are in the process of completing a human resource management manual with the help of a MicroServe consultant, Jaime Mendoza. They have not yet trained their staff in the application of the recently revised and completed credit and operations manuals. Therefore, their revisions of some policies and procedures are not yet tested. Having the manuals will definitely help in their application for a license to become an FFP, but more important is their effective and consistent application.

Another aspect of their current scene is that they managed to rapidly expand from 1993 to 1995 without any fraud and without sufficient internal controls. Since the end of 1995 they have introduced better internal controls. They are now in the process of decentralizing administration and they feel much calmer about the future of their organization. They now have norms.

Challenges they currently face include:

1. Obtaining their FFP license

2. Expanding their funding to better meet their existing loan demand

3. They still need manuals for other financial services they plan to offer once they become an FFP (they lack 15-20 procedural manuals for specific operational functions)

4. Finding resources to make the upgrades to their computer system recommended by MIS consultant Robert Boni (said they need $35,000 just to updating Clipper software they already are using on 50 workstations and would need more than to upgrade to a better software - Oracle relational database. Rivarola said he had worked out a solution wherein they would only need to spend $4-5,000 to get updated license for Clipper, so they can be registered as an FFP, and this would last them for a year or two, at which point they should be able to afford a better system.)

5. Gearing up for staff training needed for rapid expansion envisioned as additional financial resources are available to expand their loan portfolio as well as for training staff in new services such as savings, that they will introduce as an FFP. (They have a plan for putting in more training, but will need to find additional resources in order to implement it

6. Savings - they will need people who can set it up, promote it, capture savings and manage these services and resources. They need to learn from their markets. They will need help in determining what are key factors for clients for savings products in order to capture their savings. They will also need help marketing their savings products. (Steve Smith pointed out that they will need to analyze costs of their savings products very carefully before deciding to implement them on a broad scale.)

In a conversation on Friday April 18, Enrique Soruco indicated that they would be running an internal simulation of the savings system in order to test it. JEH checked with Camilo Arenas, the consultant who worked with FIE on their savings strategies, and found out that they have agreed to a pilot program for mobilizing savings.

FIE plans to continue as an NGO providing training, technical assistance and commercialization services to small and micro businesses, who are not necessarily their FFP loan clients. They hope to generate dividends from their FFP investment (they will own 59 percent) to subsidize these activities. Only 10-15 percent of the FFP's profits can be used for dividends with the rest being reinvested in the FFP in order to continually expand its capital base. They plan to invest $650, 000 of their $2.5 million in FIE capital in the FFP. They are negotiating additional investments from CONSUDE and the Johnson Foundation.

6 PM Corporación Andina Financiera (CAF)

Camilo Arenas, Country Representative

Hochschwender met with Arenas to go over issues he had encountered with FIE in do their saving strategies, with Agrocapital in doing their due diligence. He also wanted to find out what CAF may be planning for the microfinance sector in Bolivia. Camilo mentioned that FIE needed to detail their work plan for testing and introducing their savings products. He mentioned that he is looking into channeling more CAF money to FIE to help them meet their existing demand for additional loan funds.

About Agrocapital, Camilo mentioned that the civil law applying to not-for profits in Bolivia specifically prohibits the transfer of funds from the NGO to any for-profit organization. JEH suggested that the investment of an NGO in an FFP is more a conversion of assets than a transfer. The NGO would be buying stock in the FFP perhaps utilizing various assets to pay for it besides just cash. Both agreed that this issue needs to be investigated further before a final recommendation is made. JEH will check with Caja Los Andes and BancoSol how they got around that legal issue.

Camilo mentioned that CAF is looking into NAFIBO, the GOB second story conduit for microenterprise finance funding. He said they may be interested in financing FIE.

Camilo also mentioned that he finds Efraín Camacho to be a bit narrow-minded about the type of supervision needed of microfinance institutions. He said Bob Christen had been in to advise on that, but that he still did not see the SOB as having any procedures worked out for doing so appropriately. Camilo does not know Bob Christen, and so could not express any opinion as to his appropriateness for further work with the SOB. JEH questioned Christen's actual experience working in a supervisory agency in their day-to-day operations. JEH and Camilo agreed to collaborate together with AID on getting needed changes into the SOB such that FFPs are not overburdened and inappropriately supervised.

8 PM Conversation with Arelis Gomez re: Agrocapital and PRO MUJER

Talk about Agrocapital focused on the unrealistic projections for savings in their proposal to the Superintendency of Banks. That overstatement, from Arelis' and Camilo's viewpoints, effects the entire business plan for the next five years, since savings are projected to provide up to 75 percent of the total capital, without which all the projects for loans and income are overstated as well. JEH recommended that the consultants review their findings with Arvin Bunker when he returns from home leave later this month before finalizing their report. He was in charge of producing the projections, and should have insights into the assumptions made that may not be apparent in the business plan.

The discussion about PRO MUJER focused on meeting to review scopes of work and coming to a conclusion about who would do what specific tasks. JEH agreed to give Arelis a copy of his SOW and to meet later in the week to decide on how to proceed.

Tuesday April 15, 1997

8:30 AM Centro de Fomento de las Iniciativas Económicas (FIE)

Elizabeth Nava, Director de Créditos, Jefes de Departamentos de Contabilidad, Crédito and staff in the branch office; USAID - John Owens; MicroServe - James Hochschwender

JEH and John Owens/Gabriela Santa Cruz went over the MIS system with Elizabeth Nava. We looked at the different levels of access and the types of information that different staff have, at manager, advisor and evaluator levels. We looked at monthly, quarterly and annual financial reports and their computerized analyses. We saw the client, evaluator, agency and portfolio MIS. One point of note was that FIE maintains written off loans in the evaluator's portfolio for purposes of evaluating performance and to ensure that those loans continue to be followed up. We then were shown the computerized accounting system and instructed on how data is entered into it daily from agency offices, and the reports that are generated daily, weekly, monthly, etc. We were shown how data in the system can be reviewed and how it is automatically integrated with the portfolio information. We were then shown the agency level operation of the system. We were walked through the entire process from the original solicitation, through the loan application and review forms, approval process and forms, disbursement process and forms, payment process and forms and collection procedures. Our overall impression of their MIS system was that it is one of the more sophisticated ones we have seen. It appears to automate a majority of the recording functions and be relatively easy to learn and use. They pointed out the password security feature, but they did not give us the complete security system (which they shouldn't). We were given their March 31, 1997 quarterly report including 12 annexes providing various views of the performance and state of portfolio. We also asked for a complete set of their loan forms.

1:00 PM Lunch with John Owens

Discussed our backgrounds and experience, what we'd seen in FIE, and what we would be doing over the next days.

2:30 PM PRODEM

Ing. Eduardo Bazoberry, Executive Director, USAID - Steve Smith, Gabriela Santa Cruz, John Owens, MicroServe - James Hochschwender

Eduardo briefly went over how PRODEM had arrived at deciding to become an FFP. The original plan, once BancoSol was started, had been for PRODEM to do turn key operations of new urban branches for BancoSol. However, BancoSol was not able to absorb all the branches that PRODEM was starting and bringing up to break-even level of services. That created too heavy a burden on PRODEM's limited financial resources, because PRODEM did not see themselves as ongoing operators of those branches. So PRODEM made the decision to break from being a turn key operator for BancoSol and go into rural microfinance. They had to learn how to do it, since rural microfinance has somewhat different characteristics such as agriculture lending, than its urban counterpart. However, they took what they could of their solidarity group lending methodology and have adapted it to rural markets. They currently have 34 offices spread across Bolivia. They have evolved a $500-1,000 eight month agriculture loan program and will later learn from Agrocapital how to make the larger loans needed by rural agribusinesses. One of the key issues for rural microfinance is that it takes three years for a new office to reach profit level that an urban agency can reach in 6 months. They see opening agencies in secondary cities and outside secondary cities where there is sufficient population (e.g. in Pando which has 38,000 and in Cobija which has 10,000).

Eduardo focused more on the issues, challenges and opportunities PRODEM is currently facing. They will be opening three new agencies within the next month and three more within the next 6 months. So resources are a issue. They had planned to create self-sustaining branch offices using grant and donor loan resources as they had in the past. However, conditions in the market have prompted them to accelerate their expansion plans, and change their strategy in the near term. They had planned on becoming an FFP by March 1999. Their Board of Directors has now decided that they should become an FFP by June 1998. This will be a major challenge for them over the next months. They will need a good banker to help them prepare for becoming an FFP.

Eduardo mentioned that he had talked with NationsBank about PRODEM being the receptor of wire remittances from Bolivians in the US. That could be one significant source of funds, once they become an FFP. He pointed out that there is still little sense of service in Bolivian banking. An example is the 12 percent banks charge for a draft of less than $1,000. He also mentioned that there is already demand for savings services from their clients and that being able to provide “giros” will also generate significant amount of funds for their loan operations as well as income to cover costs.

Steve Smith indicated that there may be technical assistance resources available, in addition to the ones PRODEM currently has available through Accion International, through MicroServe for assistance in areas related to becoming an FFP. Eduardo explained that they have a strategic plan for Accion consultancies, but that plan does not include assistance for becoming an FFP so soon. He expressed interest in this additional assistance. He suggested providing someone like Monique Fridell, referred to him by CGAP. She is an experienced banker with ABAmron who has developed an interest in microfinance and who wants to utilize her experience in banking and merchant banking to help microfinance institutions to generate the financial resources they need. His idea was for her to spend 4 months in PRODEM to do a bond placement, putting together shareholder agreements, a prospectus, etc. JEH had recently received her resume, but without any reference to PRODEM, and could not see how she could be used. He agreed to contact her to find out what she might be able to do and on what terms.

PRODEM wants to maintain Boliviano loans instead of $US loans, as many of the other MFI's are doing in Bolivia to maintain the value of their portfolios. The limit on the amount of loans to any group will be 1 percent of the capital of the FFP. Their largest loan at present is a $45,000 loan for a truck to transport wood products (e.g. telephone poles). The loan includes purchase of full replacement insurance for the vehicle, which is the only secure way they can see of making such a loan. They charge 36-38 percent for such larger urban loans instead of the normal 48 percent for their rural loans.

When asked about PROFUND as a possible source of funding, Eduardo reminded us that they can only invest in two organizations in each country and they have already invested in BancoSol and Caja Los Andes. However, he is in touch with them and will see if there is a way to define PRODEM such that PROFUND can also invest in them. PRODEM would like to, instead of savings, get investments from borrowers to provide them with a better return on their investment than they would get from a savings deposit. PRODEM will invest $2.2 million in the FFP. They are negotiating an additional investment of $800,000 from Sartawi and the balance of $2.0 million from various other investors. They are also talking with Banco Mercantile about 0 percent bonds for expanding their loan portfolio resources.

They are thinking of other kinds of insurance for borrowers (along the lines that ADEMI is already doing in the Dominican Republic). They feel that such insurance will be a “botón de muestra” for PRODEM for the Superintendency of Banks (SOB). Eduardo said the SOB is still slow in processing applications for FFP licenses, but PRODEM should have an advantage because they are well known to the SOB because they have regularly been sending them their financial information for the last two years, as if they were already being supervised.

PRODEM, according to Eduardo feels more in control of the rural microfinance market in Bolivia than any other MFI. The key people in the FFP will be William Blackwood, Ph.D. in joint ventures from Purdue and experienced in investments and finance, as Chairman of the Board of Directors, Sergio Prudencia as Administrative and Finance Manager and Eduardo as General Manager.

PRODEM does not agree with the political law that would permit NGOs to collect savings. He sees Pilar Ramírez of the World Bank pushing this. The real question is what is the ownership of NGOs.

Eduardo sees the greatest challenge they face becoming an FFP is changing the mentality of the staff. They need real bank managers to be regional managers, and need people who can adjust to the changing market of microfinance. The credit officers need to become more credit advisors. They will need additional technical training for that. The pay for a regional manager in the FP will be $35,000; it is currently $18,000 in PRODEM. A new credit official in PRODEM earns B1,400 ($270) and in the FFP will earn up to $800. They need more responsibility in staff, to follow up with clients to maintain good repayment. They also need to make a long term commitment to PRODEM.

PRODEM is about to put in new software - SQL - that will enable them to better process the database they already have from client application and monitoring forms. They did a study in 1991 that found that 64 percent of their borrowers had tripled their equity and 32 percent had experienced little or some improvement while none had gone bankrupt. (The visit to the agency office in Batallas revealed another reason they are upgrading their software; their accounting and portfolio management software do not interface, so data has to be input into each separately. Also, there is only weekly downloading of most data to the central database and accounting system, which is inadequate for an FFP.)

John Owens and JEH then met with Sergio Prudencia, National Administrative and Finance Manager. It was actually the by-laws of BancoSol that forced them to go rural when they ended off their affiliation with BancoSol in 1993. When they went rural, initially they went for the same clientele they had before, commercial venders, but in rural cities of minimum 5,000 population. They discovered that campesinos came to those centers to do business and also wanted credit. But they needed bigger amounts and longer terms because of the nature (agriculture) of their business activities. PRODEM continued to use solidarity groups, and began analyzing cash flows. They came up with $1,000 for 6 months, with monthly interest payments and a balloon principle payment at the end, at harvest or fattened animal sale time. They also realized that rural people are not just farmers. They found that 6 months was too short and extended credits for up to eight months, with 40 percent of principle payments spread over the last three payments. They also found out that mono-cultivators are too risky.

Their secondary city agencies are given more flexibility in their loan products. Ninety-five percent of their agencies (offices) are operationally self-sufficient. Analysis has shown that real financial costs should be 13.4 percent. Their actual financial costs are 2.4 percent, and so they impute 11 percent to arrive at financial self-sufficiency measures. PRODEM had $800,000 profit last year but broke even with the imputed financial costs.

They have established a reengineering department in order to reach financial self-sufficiency more quickly. They are increasing terms of rural loans to 10 months, which gives them a 40 percent productivity increase by reducing the number of loan applications. They have found that ten months is the absolute limit for using getting a new loan as an incentive for on-time repayment. If the people were able to pay at a certain quota, by keeping the quota the same for the ten months, they increase productivity by making a larger loan to begin with, thereby increasing average loans outstanding by 25-60 percent (depending if loans were for 6 or 8 months previously). They also eliminated weekly payments to reduce transaction costs of processing them (as well as to their clients, which they did not mention). They now have either 15 day or monthly repayments, which leaves more time for credit advisors to do economic studies needed to accurately assess loan applications and portfolio mixes, and to do more client follow-up, thereby reducing portfolio risk. This has resulted in 40 percent cost-savings. They are including social criteria in their loan application reviews. They check to see if the family is healthy or not, if they have been resident for more than one year, and if neighbors know them and whether they are peaceful (by how noisy they are or if they fight a lot or not at home). (This is very similar to criteria used in installment loans in the USA for decades. More recently, the number of requirements has been reduced from about ten different items including repayment capacity, marital status, ownership of housing, minimum of one-three years at address, minimum of one in current job, totally clean credit history, etc. to about three - repayment capacity, relatively clean credit history, and minimum one year in current job.) If a person pays late, they reduce the quota to the level at which the person was not paying late. For example, a person who graduated to a $750 loan starts paying late; they would move him back to a $500 loan that he was previously able to pay on-time.

Their agencies are cost centers. Accounting is done in departmental agency (area office) and consolidated in headquarters in La Paz.

The major challenges they are encountering at present and anticipate in the near future include:

1. Now managing mature agencies whereas before were turnkey operators. The result is much larger portfolio and staff, with all the accompanying problems they bring.

2. Operating in more rural areas is more expensive. They need to continue to look for ways to economize in their operations.

3. Establishing transfers (giros) and savings services will be a major challenge. Convincing people to save in a bank/FFP needs to be worked out, thought they have a very positive image in rural areas already and know their markets well enough to know to place their agencies near bus terminals in urban markets, for example.

4. Funding is the major bottleneck to more rapid expansion. PRODEM does not know how to get major outside, private funding from savings, time deposits, CDS, loans from banks, bonds, stocks, etc. John mentioned that Banco Popular de Puerto Rico is looking for opportunities such as PRODEM to lend money to. They need to learn much more about liability management.

5. To show a profitable institution to political shareholders - one that yields attractive returns.

6. Need to upgrade MIS system from FoxPro, a file manager that is not secure enough for a formal finance institution, to SQL. That will be a big shift and will affect all parts of the organization.

7. Setting up a Marketing Department that will conduct ongoing market research and new product development and monitor customer satisfaction.

8. Upgrading their internal audit functions to the level of the President (actually it should be above the level of the President) form its current level of Sergio himself.

9. Getting agency level cost centers managed by agency managers. They need to train all 34 of them in financial management.

10. Staff training both in technical areas as well as in career development has to be upgraded. Only in the last 1 ½ years have they realized the need to fire people and establish minimum performance standards.

Sergio gave us copies of their latest report and financial analysis and organizational profile, from February 1997. It has data and analysis broken down by agency and department (region) as well as consolidated. It is quite impressive in its detail.

John and JEH then talked with Jose Becerra, Chief of Human Resources Department. That department consists of 4 people; three psychologists and one professional trainer. He very adroitly walked them through the evolution of PRODEM from pre-BancoSol, through their affiliation with BancoSol, to post-BancoSol, to PRODEM-FFP and how the staffing and training functions and emphasis evolved with those changes. PRODEM started out with staff with sociology training and without experience in banking, who were dedicated to the PRODEM mission. They were trained in the institutional culture, self management, team work and respect for seniority. The result was motivated staff who identified with PRODEM. During the period with BancoSol, they looked for staff with more bank experience and more technical training and experience in finance and financial advising. They provided more technical training (basic accounting) to existing staff. The training of new staff focused more on client service and more on profitability and productivity. The result was staff less motivated and less identified with PRODEM.

From 1993, when they split from working in conjunction with BancoSol, to present their staff grew form 30 to 190 personnel. During this post BancoSol period they hired more people with degrees in agronomy, without experience in banking. Their mission returned to support to the Bolivian family, not as much as originally, but much more than during the BancoSol period. The training put more emphasis on productivity but also more emphasis on the PRODEM culture. The result has been more motivated staff who are more identified with PRODEM.

The FFP future will require to types of field staff; the rural profile of outside chiefs with young, local credit advisors and the urban, more BancoSol finance types. Training will have to be more technical, but continue to include the culture and productivity. The challenge will be to not lose the motivation and identification as the technical is added.

Jose handed out an outline of the new paradigm of training and explained the framework within which they are operating. The base is Quality Persons. They will screen for people with a good work attitude and personal ethical values. They will talk in training more about institutional responsibility. When they refer to values they mean responsibility to PRODEM values. One of those values is transparency - knowing what is up with solidarity groups and keeping management informed of that. Working in groups has meant installing Quality Circles. The credit paradigm is changing from only solidarity groups to solidarity groups and individual loans and other paradigms as well. Staff need to be flexible in accepting changes in personnel and in the markets and manage those changes.

When they speak of Communication, they mean about the hierarchy and about participation in the organization. They need to sell these to the employees and get their active participation in reinforcing them. Quality Service goes along with communication and means that staff need to be financial advisors not just credit advisors. The result of instituting these training and management changes will be self realized staff and an excellent institution.

The training will consist of three areas: culture, technical and leadership. The cultural training will be to all staff and will consist of an induction course, annual 2 day workshop and quality circles. This is very much the Accion model. The technical training will be according to job and will be conducted internally and externally. They will take advantage of external expertise for some of the technical training rather than trying to create an in-house capability, which would take too long to develop and be too expensive. The leadership training will be for staff who qualify and will focus on leadership at a distance.

They will have an incentive policy that will lay out expected results - number of clients, self-sufficiency and default rate, all team based. They will evaluate personnel twice annually on functions, culture and productivity.

The challenge the HRD Department faces right now is finding the time to train staff in the new form of organization and not losing god people in the process. They need one more person in the department. And they need practical training in HRD, perhaps outside of Bolivia. JEH and JO mentioned the training center at BRI as a possible study tour site for HRD training, since BRI as worked out their training and personnel system for 3500 + unit desas. Jose was very interested in learning more about it.

Overall, both were impressed with the quality of the two later presentations about PRODEM. We met briefly with Eduardo on our way out and found out he would not be going with us to Batallas, but that he had arranged for a Departmental Chief to accompany us.

Wednesday April 16, 1997

PRODEM Batallas - Juan Javier Velásquez Carreño, Assistant Departmental Operative, USAID - Gabriela Santa Cruz; MicroServe - James Hochschwender

Juan explained some of the challenges facing the agencies.

1. Competition with other MFIs is the foremost; particularly those that charge lower, subsidized interest and treat campesinos paternalistically.

2. Liquidity was the second most significant factor in agency expansion; PRODEM does not have enough funding to continue expanding its portfolio to meet demand.

3. Lack of sufficient technical training in financial analysis for financial advisors. Juan started out saying that the need was for technical training for clients in such things as agronomy and fishing. Both JEH and GSC responded that this is not PRODEM's problem. Juan acknowledged that they are trying to utilize extension service resources to fill in this client need, but that they were not able to fulfill their role of financial advisors

in helping their clients analyze new business opportunities in their communities and so need additional technical training in financial analysis of different types of businesses. (What they may actually be asking for is sub-sector analysis tools.)

4. Duplication of data entry, such as for application and evaluations and portfolio and accounting, reduces productivity.

5. Need tools for doing area economic analysis in order to better be able to anticipate and analyze new business ideas coming from clients.

When we reached Batallas we were guide through the entire credit process by the Agency Chief and then shown the MIS system. Here we discovered that PRODEM is not as advanced as FIE in their MIS. There is no automatic link between the PRODEM accounting and portfolio management system. PRODEM felt it was too expensive to do the daily modem transfers. The result is credit officers have to input the same data several times for the same client for the same loan. Data about disbursements and payments is only transferred to departmental offices and then on to central information system once a week. Summary data is transmitted by radio daily along with data pertaining to payments on loans for other agencies' loans. There are two reasons for not having direct, by modem links of agencies with the central accounting and portfolio management system. One is the fact that many of the agency locations do not have telephone service in the towns. The other reason is the hardware and software system are not equipped to be networked. The third reason is the cost of the telephone calls to make the modem transfers.

One selling point for PRODEM loans is renewal loans are made the same day final payment is received for the previous loan. If the borrower has made late payments, there is a delay of one week for each late payment. Loan approvals are by the advisors, the loan committee (advisors and agency chief together) which meets once a week (on Wednesdays in Batallas) and reviews 10 - 18 loans in 1 - 2 hours depending on the extent to which new advisors have to be oriented to appropriate business analysis. Payments vary according to personal situation and the economic activity. The borrowers can pay only interest some payments and interest and principle other payments. They sum group payments for group total quota. “Quotas diferenciadas” have not worked well in Batallas. The staff have regular weekly schedules for doing loan evaluations, visiting clients for follow-up, doing administration and accepting payments. They try to always have one person in the office who can accept payments and answer basic questions. They do orientations for new solidarity groups any day of the week, whenever a group shows up. Most payments are made Saturdays, which is the market day in Batallas. Advisors make a point of finding out which market days borrowers go to so they can track them down more quickly if they are late in paying. They make a point of checking the variations in client income and expense flows as part of the loan analysis process. We were given sets of loan forms which included: Ficha de Datos, Acta de Asociación de Grupo Solidario, Solicitud de Préstamo, Estado de Resultados, Hoja de Cálculo, Flujo do Caja (for twelve months). We were shown disbursement and payment receipts.

We then went and enjoyed lunch along side Lake Titicaca and discussed with Juan some of his personal interests and how he will go about furthering his career.

Part Two

Wednesday April 17, 1997

3 PM Sartawi - Irene Sievers, General Manager, Miguel Condori, Credit Portfolio Manager, Freddy Ignacio, Finance and Administrative Manager, Lic. Jorge Tipisman Nogales, Manager; USAID - John Owens and Gabriela Santa Cruz; MicroServe - James Hochschswender

JEH and GSC arrived late. John Owens had been there for over a half an hour before and had been dealing with Irene's perceived problems with USAID. She was concerned that USAID and MicroServe were going to inappropriately try to impose conditions and consultants on Sartawi. She was also concerned that FADES, with its lower interest rate, will ruin the rural finance market before they go out of business due to lack of viability. She briefly explained how Sartawi started in 1990 with $10,000 in an experimental loan fund. An additional $100,000 was granted in 1991 and by the end of 1992 their loan fund totalled $1 million. They give credit to solidarity groups with no other guarantee. It did not work well.They then started insisting on land title guarantees, which are not enforceable, but which seem to work much better. They started in Batallas and opened several other offices. They have 4 agencies now in La Paz, 2 in Oruru and 3 in the Cochabamba area. They had to close the rest because of bad clients, too many clients who would not benefit from loans and/or they were Plan International communities that were not necessarily our market, or for cost reasons, they could not service them economically enough to be able to continue. She then excused herself, indicating that the credit services of Sartawi were really totally separate from their other activities.

They have a total of 16 credit officers. Each office has its own particularities. They have different days they are open, meaning that they are not open all normal working days . Their credit officers are hired from the local area and must have business/agriculture experience. They have almost no formal training; it is all on-the-job training done by the Agency Chief. They have some systems of control, but adapt to specifics of local custom, such as market days for when offices are open and repayments can be made. The terms of loans vary by region. For example, it takes 8 months to fatten pigs in Batallas and only 4 months to do the same in Cochabamba. So their loan terms are different accordingly. They have a market day orientation to making loans, repayment schedules and collections. They even switched to individual loans.

They recognize markets that they are willing to serve:

1. Markets that have access to resources - infrastructure and services (water, light, electricity, transport, etc.
2. Markets which allow service to many communities - market centers where people from many communities come to do business.
3. Where they can find local credit officials who are community leaders and businessmen who know local economy (and, therefore, do not need training). They tried to find people through credit unions, but they were too corrupt.

Miguel Condori, in charge of credit portfolio, came in as a cashier. Freddy Ignacio, Finance and Administrative Manager, came from the MIS department of Banco do Brasil working on automating auditing their credit systems.

Some points to consider in their organzation and approach include:

1. They do not have standardized approach. They have their credit officers use "common sense" in making loan decisions. They said they have preliminary credit and operational manuals, but that they have changed policies and procedures since they were done and have not updated the manuals.

2. They see themselves as a finance institution with social objectives. As of the end of December 1996 they had made 4135 loans ranging from $100 to $10,000, with the average being $340. Their loan portfolio totaled $1.6 million. They are up to about 5,000 loans to date. They have only three clients at $10,000.

Their challenges include:

1. They need to consolidate, make their operations more efficient and optimal.

2. They need additional loan funds. They are limited in the new loans they can make because of lack of additional loan funds. They only have loan reflows to use at present. They feel they need to formalize into an FFP to have greater access to funds.

3. Human resource development - they need to upgrade personnel (basic qualifications) and institute training.

4. Need to refine appropriate method for identifying appropriate loan products.

They need to standardize forms and institute fund accounting system. They are taking 2 of 5 day work week of credit officers for accounting and reporting .

Thursday April 18, 1997

8:00 AM Sartawi Agency Heads and Credit Officers; USAID - John Owens; **MicroServe** - James Hochschwender

We got there on time and everyone else arrived late. We didn't get started until almost 9:30. John and JEH used the time to go over what we'd seen so far. We also outlined that what we wanted to get out of the overall set of visits these two weeks is a sense of where each insititution is in relation to meeting standards of a formal financial institution and in relation to the rest of the NGO and FFP MFIs in Bolivia.

We finally met with half a dozen Heads of Agencies and Credit Officers. Their credit process is as follows. Their credit officers (CO) are approached by someone from the communities they cover. The CO goes to the home and/or business and works out a monthly cash flow for the business and the family. Sartawi will lend up to 30 percent of the combined net cash flow of both husband and wife.

The CO checks with neighbors if person has other credit. They also try to share information on bad debtors with PRODEM, but they said PRODEM is not providing the information they agreed to. In order to make their Solicitude for Credit appear more official, they put it on GOB paper.

They take a guarantee of land title. They get people to register their titles of which here are three kinds in the communities they work. Executed titles are land reform titles. There are regular land titles. And finally they take power of attorneys from parents of borrowers on the parents land titles, but these are limited to loans of $2-300. None of these pledged land titles is enforceable as a guarantee as Sartawi is not registered to be able to go through the legal process of registering the liens on the properties. If they were to become an FFP, they could do so, but the court system is so slow that it can take years to enforce the guarantee.

30 percent of their loans are to women. They do a financial analysis in whatever currency ($US or Bolivianos) the loan will be made in. They fill out and have customer sign a credit solicitation. When this is approved by the Loan Officer, Cashier and Manager, a Loan Contract is drawn up on official paper and is signed by both parties.

Loans terms depend on the locale and the business activity.

ANNEX B

INSTRUMENT ASSESSMENTS

QUESTIONS FOR BOLIVIA NGO TA ASSESSMENT

Who are bankable clients for your institution?

What financial services do you find are most demanded by your target population?

How many clients (loans) do you plan to have/make 5 years from now?

What are the greatest challenges you face in:

- Planning the growth of your organization?
- Managing your organization? Knowing what is going on in all parts?
- Developing staff at different levels of your organization?
- Improving productivity of individual staff and the organization as a whole?
- Marketing your services to the people you really want to reach?
- Finding ways to reduce costs?
- Knowing what different activities/functions in your organization are really costing you?
- Providing credit services to significantly larger number of clients efficiently and without losing control of their performance?
- Improving quality assurance/control in all aspects of your operations?
- Developing new financial products/services?

How do you link your performance evaluation with your market research? With your operations systems? With your staff development?

How long does it take to train new loan officers? How many of them can you start and train each year? What effect would that have on your average productivity in the first year? Second year?

What are your plans if there is a negative change in the economy? High inflation, for example.

If you could solve one problem in your organization over the next 6 to 12 months, what would it be?

What outside training does your organization need? What are your plans for getting it?

What outside technical assistance are you planning over the next 12 to 18 months?

Only if needed:

How do you think problems in your organization should be solved?

What do you think of outside consultants?

What kinds of things do you think outside consultants can really help you to improve, if any?

Whose organization do you see this being five years from now?

FOCUS SUMMARY

FIE—What's Next

Now that you have all these manuals, how will you go about introducing all of the staff to them?

How will you ensure that the staff are actually applying the policies and procedures in the manuals?

What process have you established to monitor the performance of these policies and procedures and to make changes as is discovered necessary?

SARTAWI—What's Next

What about due diligence done by Camilo Arenas? What did he recommend that you agreed with?

What is needed first to improve the control of your resources?

What do you need to do better in order to better, more efficiently and more effectively, serve your clients?

PRO MUJER—What's Next

See recommendations of Arelis and JEH.

AGROCAPITAL—What's Next

See recommendations of Arenas team.

FUNDA-PRO—What's Next

Update on status of ED and relationship with Superintendency of Banks.

CRECER—What's Next

Find out from Steve, et al what is status of this NGO in relation to USAID.

Assess where they are at in the process of developing into an FFP.

Superintendency of Banks—What's Next

Application evaluations—up to speed? What else would they like help on with this? Have they documented the process that Miguel Angel went through with them?

What plans do they have to study/develop a system specifically for supervising FFPs? What help do they need, if any, in doing that? Studies? Study tours? (Philippines, Indonesia, United States? Check with Camilo on benefit of going to United States on study tour to see supervision of consumer credit and small banks.)

BancoSol—What's Next

What do they see as their biggest challenges?

What have they learned that could be of benefit to other emerging financial institutions for the poor?

In what ways will ACCION be assisting them?

CAJA—Los Andes

What have they learned that should be shared with other newly formalizing financial institutions?

What **external assistance** have they found most useful in the development of their organization?

> Their products?
> Their staff?

What were the characteristics of that external assistance that most enhanced its effectiveness or the ease with which they were able to incorporate the tools and learning from it into their operations and strategies?

ANNEX C
LIST OF MICROSERVE PUBLICATIONS

1. *Microfinance Training Course Evaluation and Completion Report*, April 19, 1996.

2. Cary Wingfield Raditz, *Assessment of Microenterprise Support Institutions for USAID Sri Lanka: The Micro Enterprise Support Activity*, June 25, 1996.

3. Dale W. Adams y Fernando Cruz-Villalba, *Microfinance Workshop for the West Bank and Gaza Completion Report*, July 29, 1996.

4. Miguel A. Rivarola, *Evaluación de la Propuesta de Constitución del Fondo Financiero Privado para el Fomento de Iniciativas Económicas*, October 1996.

5. Mario Dávalos, *Evaluación y Análisis de la Fundación para la Producción (FundaPro)*, October 1996.

6. Ken L. Peoples, *Consideration of a Merger between the Sartawi Foundation and the Agrocapital Foundation*, November 1996.

7. Meliza H. Agabin, Jeanne Koopman, and Harunur Rashid, *Women's Enterprise Development Project: Mid-Term Evaluation Report*, December 1996.

8. Robert Boni, *Revisión del Sistema de Informática del Centro de Fomento a las Iniciativas Económicas*, April 1997.

9. Oscar Oswaldo Oliva V. and Barry Lennon, *The Organization for Women's Enterprise Development: Institutional Assessment Report*, June 1997.

10. Camilo Arenas, *Evaluación de Diligencia Propria de la Fundación Agrocapital*, June 1997.

11. Margaret Bartel and Heather Clark, *World Relief Corporation's Cambodia Gateway II: Institutional Assessment Report*, June 1997.

12. Camilo Arenas and Victor Fernández, *Evaluación de la Constitución Propuesta del Fondo Financiero Privado Agrocapital y Revisión y Evaluación de la Propuesta de ACDI*, July 1997.

13. Arelis Gomez and James Hochschwender, *PRO MUJER: Institutional Assessment Report*, August 1997.

14. Karl Jensen and Anicca Jansen, *Faulu Kenya Institutional Assessment Report*, June 1997.

15. James Hochschwender, *Preliminary Analysis of Microfinance Institutions in Bolivia*, June 1997.